



**Yadkin County
Administrative Offices**

Stan Kiser - County Manager

*PO Box 146
217 East Willow Street
Yadkinville, NC 27055*

*(336) 679-4200 (Office)
(336) 679-6005 (Fax)*

To: Board of Commissioners

From: Stan Kiser, County Manager

Subject: 2009-2010 Budget Message

Date: May 4, 2009

The past year has seen many changes in Yadkin County. There are various construction projects are underway and a few in their initial stages of development. The largest change has been felt in the economy itself. While Yadkin County has not experienced a major job loss due to industry closing or scaling back in operations, the County is feeling the effects of the world wide economic contraction. Problems with the State budget persist and the State continues to pass their own budget problems onto the Counties either through mandates, budget cuts, or the withholding of county funds. In the coming fiscal year there is the possibility that the State could withhold both ADM and lottery proceeds. These are funds which the State originally dedicated for school debt service or for capital outlay. Yadkin has based part of the repayment of borrowed funds from this revenue stream. If the State does hold these funds than Yadkin County will lose \$1.3 million in state funding. The County must be prepared for this eventuality by having enough funds in reserve to cover this potential loss in state allocation.

The past year has seen the County take control, and financial responsible of Hoots Memorial Hospital. This is a potentially large financial obligation for the County in the coming fiscal year. After receiving proposals for several management firms, Yadkin County employed HMC to manage and operate Hoots Memorial Hospital. We feel confident that this firm will give the County its best opportunity to turn the hospital around and bring it to profitability. However, in the past the hospital has experience severe losses and the County must construct a budget with contingency plans to fund additional losses at Hoots Hospital in the coming fiscal year.

At the same time that Yadkin is experiencing the same budget constraints as other government entities, we are also in the midst of a large capital improvement plan to County infrastructure. In the past two years the County has financed \$25.5 million for Middle Schools, \$7.3 million for the 5 D Reservoir, and \$7.2 million for a new County jail. While all of these projects have merit, and certainly the needs of the County should be addressed, your timing could not have been worse. Consider that at anytime over the past 25 years that you would have chosen to undertake these projects the economy would have been in a better position to handle the debt load. But, no one could have foreseen the coming credit crisis and downturn in the economy. Like it or not this is the circumstance we are in and we must deal with the situation accordingly.

During budget discussions in 2007 the Board of County Commission voted for a tax increase of eight (8) cents of which two (2) cents was dedicated for jail construction; three (3) cents for construction of the middle schools; two (2) cents for the operation of the middle schools; and one (1) cent for other county needs. In reviewing the minutes of the Board action at that time I find that it was stated that the County operates with a fund balance of \$20 million and that a \$15 million fund balance was not unreasonable. From discussions with the Finance Officer Sheron Church I find that Yadkin County's fund balance has never approached these stated levels. At the time of this vote Yadkin County's fund balance was \$5,538,828 as of the June 30, 2006 audit. By this current years (June 30, 2008) audit the fund balance has risen to only \$9,375,810. During the current budget year (2008/2009) the County original appropriation from fund balance at the adoption of the budget was \$2,177,689. Since that time the appropriation from fund balance has increased to \$3,603, 982. This does not include the \$325,000 that was budgeted in the current year for Medicaid Hold Harmless which the county will not receive. There has also been much discussion concerning the need for start up cost for the middle schools. There was no mention of this in the May 2007 budget discussion.

Since the County fund balance was never at the level it was said to be and there was no mention of start up cost for middle schools, I do not think it fiscally wise for the County to continue to adhere to the action that was taken in May 2007. I may point out that the decision one Board makes for funding in one year is not binding on another Board in a future year. When you consider the slowing economy, possible loss of ADM and Lottery proceeds, unknown cost of maintaining Hoots Hospital, the fact that the amount stated in fund balance was in error, and the \$1.9 million for middle school start up cost were not mentioned it is obvious that the decision of 2007 was based on faulty information. It is my recommendation that with the adoption of the fiscal year 2009/2010 budget that any designation as to cents on the tax rate for a particular function be dropped and that funds of the county be used in the best way possible to insure the County makes it through the current budget and economic situation.

In crafting next year's budget the departments were instructed to bring the fiscal year 2009/2010 request in at the current year's appropriation or less. With very few exceptions this has been accomplished. Even at this austere level there is still the need of an appropriation on \$1.3 million from fund balance. In considering the current budget and economic conditions the tax rate should remain at 76 cents and there is no way feasible for the County to provide a cost of living adjustment for its employees.

In order to guard against future tax increases we must work to build our tax base. Success like we experienced with Nonni's must be repeated. To build our tax base and insure future employment we must continue to work on bring industry and jobs to the County. One of the ways the County can improve its tax base is through the recruitment and retention of business. Improvements need to be made to Yadkin County's industrial and commercial base. The County has begun the development of water and sewer lines throughout the county which will help in attracting industry. The State has asked for and we have responded to many requests for our list of "shovel ready" projects, but as yet nothing has been available through the stimulus package.